



# DEPARTMENT OF THE NAVY

NAVAL SEA SYSTEMS COMMAND  
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## MEMORANDUM FOR DISTRIBUTION

From: Director, Cost Engineering and Industrial Analysis  
(SEA017)

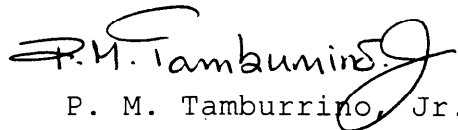
Subj: TOTAL OWNERSHIP COST (TOC) IMPLEMENTATION GUIDANCE

Ref: NAVSEA TOC Working Group meeting of 23 Jun 98

Encl: (1) TOC Baseline Selection  
(2) Cost Roll Up Ground Rules

1. This memo provides guidance relative to TOC baseline selection (enclosure (1)) and program cost roll up (enclosure (2)) as decided during reference (a).

2. These policies will remain in effect until cancelled or superseded by separate correspondence. As a matter of convenience, these policies will be posted on the SEA017 Web site (<http://www.navsea.navy.mil/sea017/toc.htm>) along with other TOC materials of interest. Questions regarding this correspondence should be directed to [REDACTED] SEA 0171, 602-1308, x166.

  
P. M. Tamburrino, Jr.

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## **TOC Baseline Selection**

The selection of a starting point for measuring progress is the single most critical factor in establishing metrics for TOC reduction efforts. Program Managers must be clear as to the starting point selected to measure TOC progress against. Program Managers must also be precise in articulating cases where warfighting capability increases have been made in concert with changes in ownership costs. When establishing TOC baseline, some costs may already be sunk (e.g. RDT&E expended at program conception); program managers are not expected to expend great effort to determine sunk costs. There are three clearly defined points of departure from which to measure TOC reduction. The policies associated with these points of departure are defined in the following paragraphs.

### **I. For Programs That Are Pre-Milestone I**

The basic premise to be applied here is new start programs are generally designed as some form of replacement or significant technological advance for an existing program. For example, the CVX program is a future year replacement for current NIMITZ Class carriers. Similarly, the DD 21 program is a future year replacement for current AEGIS Class destroyers. Therefore, it is an important part of these new-start programs to demonstrate their TOC, as well as their warfighting capability, is a significant improvement to the entity being replaced. In summary, the basis of comparison for new start programs, where an independent life cycle cost estimate has not yet been performed, will be the system(s) the new start replaces.

### **II. For Programs At Milestone I Through IOC**

The milestone decision process requires the generation of a Program Life Cycle Cost Estimate (PLCCE) as part of the decision process. The PLCCE must be done in a manner that captures all the elements of TOC for display internal to the Navy. Current Navy policy does not require display of certain indirect personnel costs outside of the Navy. This policy is outlined in ASN(RDA) Memorandum of 19 Aug 1997, subj.: Manpower Cost Estimating Databases And Methodologies. As part of the pre-Milestone I process, the Program Manager may have embarked on multiple cost savings initiatives that will be reflected in the PLCCE. This may cause TOC reductions previously identified to become absorbed into the PLCCE and thus transparent to the Milestone Decision Authority. Therefore, it is important to qualify the PLCCE as a means of documenting TOC reduction implicit in the initial PLCCE and any subsequent updates.

### **III. For Programs Past IOC**

The PLCCE continues to be the baseline of record for these systems. The PLCCE should be updated based on return cost data obtained from VAMOSC or other like data sources to reflect the impact of ongoing or planned TOC reduction efforts. It is particularly important to update the PLCCE to reflect the impact of modernization plans.

### **Cost Roll Up Ground Rules**

This policy defines the guidelines to be followed for the incorporation of system costs into platform level costs for the purposes of TOC reporting. The following apply:

- Missile, torpedo, mine, munitions, etc. programs are to be reported separately and not rolled up to a ship's TOC baseline. This includes items that are rotated from ship to ship such as Long-term Mine Reconnaissance System (LMRS). The general premise is all of the aforementioned items are either expendables or not permanently installed on a ship platform and thus not directly allocable to the platform.

In all cases, cognizant "System" PM's are responsible for developing, updating and monitoring their own TOC reduction plan. These TOC reduction plans should reflect the total market for which a particular system is intended. The system PM should then establish and publish his TOC reduction plan to all offices in the target market. The plan should clearly define how the TOC plan impacts the cost of a particular platform on which the system is installed and deployed. The system program manager will define how all of the system costs are to be allocated across the target market. This method requires a rigorous dialogue between the system PM and the platform PM to fully understand and adopt the TOC allocation proposal.

- Prior to system IOC all system costs will be reported as a stand alone entity. After system's IOC, systems start to roll up to ship TOC baseline as defined above.
- System's non-recurring development costs will not be rolled up to the platform. These costs will continue to be reported as part of the system TOC baseline, as will any modernization efforts unless those efforts are platform unique. In those cases the development costs will be allocated to the impacted platform.